Senate Budget and Fiscal Review
SUBCOMMITTEE NO. 1

EDUCATION
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Part II

Page

I. CHILD CARE

BACKGROUND. Under current law, the state makes subsidized child care services available to: (1) families on public assistance and participating in work or job readiness; (2) families transitioning off public assistance programs; and (3) other families with exceptional financial need.

Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services and the California Department of Education, depending upon the "stage" of public assistance or transition the family is in. Stage 1 child care services are administered by the Department of Social Services for families currently receiving public assistance, while Stages 2 and 3 are administered by the Department of Education.

Families receiving Stage 2 child care services are either receiving a cash public assistance payment (and are deemed "stabilized") or are in a two-year transitional period after leaving cash assistance; child care for this population is an entitlement under current law. Under current law, the State allows counties flexibility in determining whether a CalWORKS family has been "stabilized" for purposes of assigning the family to either Stage 1 or Stage 2 child care. Depending on the county, some families may be transitioned to Stage 2 within the first six months of their time on aid, while in other counties a family may stay in Stage 1 until they leave aid entirely.

Families receiving Stage 3 child care services have either exhausted their two-year Stage 2 entitlement or are deemed to have exceptional financial need (the "working poor"). Child care services for Stage 3 are divided into two categories: (1) General Child Care – which is available on a limited basis for families with exceptional financial need; and (2) the Stage 3 Set-Aside – which makes child care slots available specifically for former CalWORKs recipients. The availability of Stage 3 care is discretionary and contingent upon the amount of funding appropriated for the program in the annual Budget Act. Under current practice, services to these two populations are supplied by the same group of child care providers; however, waiting lists are kept separate, with priority being granted to the former CalWORKs recipients.

Child Care is provided through either licensed child care centers or the Alternative Payment Program.

- *Child Care Centers* receive funding from the state which pays for a fixed number of child care "slots". Centers provide an educational program component that is developmentally, culturally, and linguistically appropriate for the children serviced. Centers also provide nutrition education, parent education, staff development, and referrals for health and social services programs. In many areas in the State, there are no available "slots" in licensed Child Care Centers or Family Day Care Centers and families are forced to use licensed-exempt care.

- *Alternative Payment Program* provides child care through means-tested vouchers, which provide funding for a specific child to obtain care in either licensed child care centers, licensed family day care, or licensed-exempt care. With a voucher, the family has the choice of which type of care to utilize.

HISTORY OF ADMINISTRATION REFORM PROPOSALS. Since 2000, the Administration has made various proposals to reform the state's subsidized child care system. Since then, the Administration has commissioned studies and proposed the reduction and/or elimination of child care services for various populations of children and families. As part of the 2003-04 Governor's Budget, the Administration proposed "realigning" child care services, thereby shifting responsibility for the programs from the State to local governments. That proposal was later rescinded by the Administration. The Legislature and the Administration have not yet been able to reach an agreement on how to reform child care.

IMPLEMENTATION OF CURRENT-YEAR CHILD CARE REFORMS. As part of the 2003-04 Budget Act, the Legislature and the Governor approved a variety of changes to the child care system for both CalWORKS and non-CalWORKS families. Specifically, the 2003-04 Budget Bill included the following programmatic changes, *which the Administration proposes be made permanent via trailer bill language:*

- *Elimination of subsidized child care services for 13-year old children;*
- *Elimination of subsidized child care services for families whose income exceeded 75 percent of the State Median Income (maximum income level under law) because they were "grandfathered" into the program in statute;*
- *Reduction in the maximum amount rate to Alternative Payment providers for administration and support services from 20 to 19 percent. Alternative Payment providers administer local child care voucher programs.*
- *Reduction in the reimbursement rate for providers from 93 percent of the Regional Market Rate to 85 percent.*

A. CHILD CARE REFORM

GOVERNOR'S PROPOSED BUDGET. The Governor's Budget proposes approximately $3 billion ($1.8 billion General Fund) to support about 684,000 children in the state's subsidized child care system. The proposed amount represents a decrease of about $60 million from current-level expenditures. Of the amount proposed, approximately one-half of the funding will be spent on current and former CalWORKS recipients. Also included in the Governor's Budget is $15.6 million to fund 1.35 percent in caseload growth and $22.01 million to provide a 1.84 percent Cost of Living Adjustment (COLA). Staff notes that the amount of the statutory COLA is expected to grow to 2.41 percent – an adjustment that will likely be reflected in the Governor's May Revision.

In its quest to reform child care and achieve fiscal savings, the Administration proposes a variety of programmatic reforms, via the state Budget, aimed at limiting child care services and hence reducing state costs associated with the programs. The Administration states that these proposals were guided not only by the need to cut costs but to promote (1) personal responsibility; (2) work responsibility; (3) program effectiveness; (4) enhanced quality; and (5) program equity. *In most cases, the Administration is proposing both Budget Bill and Trailer Bill Language to implement the programmatic changes.*

The following pages contain a summary of the proposed programmatic changes:

Administration's Child Care Proposals Compared to Current Law/Current Practice				
	Current Law	***Governor's Proposal***	***Impact***	***Comments***
Income Eligibility	Family income up to 75 percent of the State Median Income (SMI) for a family of four	Implements a *three-tiered* eligibility structure. Establishes "high-, mid- and low-cost counties. Maximum income eligibility would remain the same for "high-cost" counties; income thresholds for all other counties would decrease. Annual adjustments would be based on the "California Necessities Index" (CNI). Base income eligibility would be established using 2003-04 child care program income levels.	$9.3 million in savings; 1,900 children would lose eligibility.	Proposal acknowledges that child care costs vary throughout the state, with the Bay Area (Marin, San Francisco and Santa Clara) being the highest. Income eligibility levels in those counties remain the same, but would be reduced in all other counties of the state. State uses SMI data from 2000, which has the effect of making the Governor's proposed income levels artificially low. Unclear if CNI is an appropriate index to adjust by. CNI increased an average of 2.7 percent annually over last 8 years, versus 4 percent for SMI.

	Current Law	***Governor's Proposal***	***Impact***	***Comments***
Age Eligibility	Children up to age 13 are eligible for subsidized child care services.	Eliminates eligibility for 11- and 12-year olds from child care and transfers them to state/federal sponsored after-school programs, (pending the availability of slots in those programs) where they would receive priority placement. 11- and 12-year old children would be able to stay in subsidized child care if they have "exceptional needs" or when an After School program is not available.	$75.5 million in savings; 18,000 children would lose child care eligibility under the assumption that they transfer to after-school programs.	Proposal would "free up" child care slots. Assuming newly vacated slots are filled by eligible children on waiting lists, it is unclear why any savings are associated with this proposal. Proposal assumes children would enroll in after-school programs, but includes no additional state funding to expand programs. (Note: DOF has a pending Finance Letter which increases amount of federal funding available for 21st Century After School program). After School programs may offer more age-appropriate activities (home work assistance) than other care options. Hours of care available through after-school programs do not necessarily match child care needs of families.

	Current Law	***Governor's Proposal***	***Impact***	***Comments***
Limitations on Stage 3 Services	Former CalWORKS recipients are eligible for subsidized child care services as long as they continue to meet age and income requirements. LAO notes that current practice prevents families from applying for non-CalWORKS child care while receiving aid.	Limits Stage 3 child care services to *one year* (in addition to a CalWORKS recipient's two years in Stage 2). Families currently in Stage 3 would receive one additional year. CalWORKS recipients would be allowed (and encouraged) to sign up for care as soon as they have an earned income.	No savings or impact in the Budget Year.	Administration and LAO find that program addresses the "differential" treatment between CalWORKS and non-CalWORKS families in child care. Staff notes, proposal fails to take into account that state has substantial investment in CalWORKS recipients that may warrant "differential treatment". Proposal puts current CalWORKS recipients at risk of losing child care because they haven't yet had a chance to get on general child care wait lists.

	Current Law	***Governor's Proposal***	***Impact***	***Comments***
Eligibility for Non-working Parents	No time limit on child care services as long as family remains eligible and is engaged in employment training and/or educational activities.	Would limit eligibility for parents in education/vocational programs to two years. Families would be given an additional two-years worth of education/training upon implementation of the proposal.	No savings or caseload impact in Budget Year, because proposal would not have an effect until 2005-06. Impact after that date is unclear.	Two years of education/training eligibility is not sufficient for parents seeking a four-year degree or longer-term vocational program.

	Current Law	***Governor's Proposal***	***Impact***	***Comments***
Reimbursement Rates	Providers are reimbursed up to the 85th percentile of Regional Market Rate (RMR).	Creates a six-level reimbursement rate structure that reimburses providers between the 40th and 85th percentile of the RMR, depending on the licensure and training of the provider as well as whether or not the provider serves private-pay clients.	$57.7 million in savings; 95,592 children impacted.	Proposal is major policy change that should be addressed in separate legislation. This proposal is the Administration's attempt to pay more for "quality" child care (as defined by meeting various licensing and training requirements). All rates would be reduced except for the highest (85 percent) reimbursement level, which would be available to providers who also serve private-pay clients and who are "accredited" and licensed. Very few providers (less than 1 percent in LA county alone) are "accredited". Thus 99 percent of providers would be reimbursed at a lower rate (75th percentile if they're licensed and have private-pay clients).

	Current Law	***Governor's Proposal***	***Impact***	***Comments***
Family Fees	Families with income over *50 percent* of SMI pay child care fees – up to *8 percent* of their gross income Fees are generally paid to an Alternative Payment program or county agency – which then distributes funds to the providers. Exempts indefinitely those children who are receiving care due to a Child Protective Services (CPS) referral from paying fees.	Lowers income threshold at which families start paying child care fees (families with income over *40 percent* of SMI would pay fees) and increases the maximum amount that a family pays (up to *10 percent* of their gross income.) For CalWORKS families, fees would be charged as soon as they leave cash aid and have an earned income. Fees would be collected directly by the provider. Limits the fee exemption for families receiving care due to a CPS referral to one-year. Children considered "at risk" but referred by a professional other than CPS will be exempted from fees for no more than three months.	$22.3 million in savings (offset by fee revenue); fees increased for 77,000 children.	For example, a family of three with an annual income of $25,000 would pay $56 more for child care each month, putting yet another financial burden on poor families. If providers are unable to collect fees, it would essentially be a "rate reduction".

B. CHILD CARE FRAUD PREVENTION AND RECOVERY

GOVERNOR'S PROPOSED BUDGET. The Governor's January Budget makes reference to the Administration developing a child care anti-fraud proposal. While statutory language has yet to be submitted to the Legislature, the Administration expressed its interest in exploring such issues as: clarifying and defining fraud; establishing criminal and/or administrative sanctions for fraudulent activities; establishing fines; and providing incentives for counties and Alternative Payment Providers to pursue fraud. Furthermore, as part of the Assembly's efforts to abolish waste, fraud, and abuse throughout state government, the Assembly Budget Committee may come forward with a proposal to expand anti-fraud activities within the child care realm.

The Governor's Budget appropriates $2 million in one-time federal funds for administrative start-up costs associated with this anti-fraud initiative; however, given the lack of details on an anti-fraud proposal, it is unclear how these funds would be expended.

LEGISLATIVE ANALYST (LAO). The LAO offers no comment on the proposed expenditure of funds to start-up anti-fraud activities.

STAFF NOTES. Staff recommends that this issue be held open pending a more detailed proposal by the Administration.

C. REVISION TO AUDIT REQUIREMENTS

GOVERNOR'S PROPOSED BUDGET. As part of the Governor's January Budget, the Administration proposes Trailer Bill Language which would alter the audit requirements of agencies providing child care services. Specifically, the Department of Finance proposes the following changes to the statutory language:

"8224 of the Education Code is amended to read:
(a) The annual audits for ~~such~~ *the* agencies *contracting with the Department to provide child care services* shall include, but not be limited to, ~~a~~ *all of the following:*

(1) A sampling of the evidence of ~~fees~~ *all of the following*:

(A) Rates charged to, and paid by, families of non-subsidized children served *by the same provider,* ~~the daily enrollment of subsidized children, the number,.~~

(B) Number of days of service provided to subsidized children, ~~the assessment and collection of parent fees, and the availability.~~

(C) Availability of support services to subsidized children and their families, as needed pursuant to the terms of the contract.

(2) A verification of the accuracy of determination made by the alternative payment provider for all of the following:

(A) Eligibility, including the birthdate of each child or documentation of special need, list of all adults in the household, and calculation of adjusted family income at initial application, enrollment, and at each redetermination.

(B) Need for child care pursuant to Section 8263 (a)(2) certified by a parent and the resulting dates and hours of child care provided for each child.

(C) Priority for access to subsidies pursuant to Section 8263 (b).

(D) Family fee.

(E) Reimbursements to providers, including, but not limited to, both of the following: (i) authorized hours of care, and (ii) use of authorized adjustment factors, including comparisons to the Regional Market Rate limits provided pursuant to Section 8221.1.

(b) The verification described in paragraph (2) of subdivision (a) may be performed by a random sampling of case files sufficient in number to determine compliance rates and the accuracy of eligibility determinations.

(c) The audit requirements described in this section shall be included in the audit guide adopted by the Education Audit Appeals Panel for local education agencies, and shall also apply to annual audits of non-profit agencies contracting with the Department."

STAFF NOTES. Staff recommends that the committee hold the language open pending the receipt of various anti-fraud related proposals from the Administration and the Assembly.

II. BEFORE AND AFTER SCHOOL PROGRAMS

GOVERNOR'S PROPOSED BUDGET. The Governor's January Budget proposal contains no major programmatic or funding changes to the Before and After School Program. Pursuant to statute, the After School Program is funded at $5 per day per child and the Before School program is funded at $3.33 per day per child. Neither program is slated to receive growth or COLA.

APRIL FINANCE LETTER. As part of its April revision to the proposed budget, the Administration is requesting that the total amount appropriated for the Before/After School Program ($121.6 million) be deleted from the Budget Bill and instead be continuously appropriated. Under the provisions of Proposition 49 (Education Code section 8483.5) – funding for the After School program is to be continuously appropriated beginning in the 2004-05 fiscal year.

LEGISLATIVE ANALYST. The LAO agrees with the need to continuously appropriate the funds in the program.

STAFF NOTES. Given the statutory requirements to continuously appropriate the Before/After School Program funds, staff recommends that the April Finance Letter be approved.

III. FEDERAL 21st CENTURY LEARNING CENTERS

A. 21ST CENTURY LEARNING CENTERS – GRANTS

GOVERNOR'S PROPOSED BUDGET. The Governor's January Budget contains no funding changes to the federal 21st Century Community Learning Centers Program. Funding levels ($75.5 million) remain the same as appropriated in the 2003-04 Budget Act and the allocation of the dollars is consistent with the State's expenditure plan for the program.

APRIL FINANCE LETTER. As part of its April revision to the proposed budget, the Administration is requesting that the budget be increased by an additional $61.8 million to reflect an increase in federal funds available for the program. Of this amount, $1.4 million represents one-time carryover funds; the remainder ($60.4 million) is due to an increase in the amount available from the federal government. In addition, DOF requests that the funds be allocated using the existing methodology, which establishes varying set-asides for specific program elements. This allocation methodology is the result of a multi-party work group that was called together pursuant to 2003-04 Budget Act provisional language.

The DOF is also requesting that the committee grant authority (via Budget Bill Language) for the Superintendent of Public Instruction to increase the grant amounts for current projects, beyond the funding cap, in order for the programs to provide additional slots for 11- and 12-year olds who otherwise would have been receiving subsidized child care.

STAFF NOTES. Staff recommends that the committee hold this issue open, pending the May Revision and also pending the outcome of the Senate's child care reform discussions.

B. 21ST CENTURY LEARNING CENTERS – STATE OPERATIONS

GOVERNOR'S PROPOSED BUDGET. The Governor's January Budget proposal contained no state operations changes related to the federal 21st Century Community Learning Centers Program.

APRIL FINANCE LETTER. As part the April revision to the proposed budget, the Administration is requesting that the state operations budget of the California Department of Education be increased by an additional $283,000 (federal funds) and 4.0 positions in order to provide support for the growing 21st Century Community Learning Centers Program.

LEGISLATIVE ANALYST. The LAO has not expressed any concerns with this proposal.

STAFF NOTES. Given the expansion of the 21st Century Learning Centers program, staff recommends that April Finance Letter be approved as proposed.

IV. PROPOSED CONSENT

Staff recommends that the following items be Approved as Budgeted.

6110-196-0001. Local Assistance, California Department of Education, Child Development Program. Per April Finance Letter, amend provision 11 of Item to clarify the Administrative Cost Allowance reduction that was approved by the Legislature and Governor last year.